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Firmago S.A. - 2016: A Deadline for Succession

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Abstract

This paper, “*Firmago S.A. - 2016: a deadline for succession*”, is a case-based essay on a family business. It aims to provide the necessary tools for readers to best decide upon who should be chosen for the continuity of the family business after July 2016. Along with the case study the reader will have the opportunity to identify two main problems: blurred boundaries and the nonexistence of succession planning.

In order to elaborate this case study I conducted several meetings with João Cabral, the current CEO of Firmago, who helped me understand the company’s background and the complexity of the family’s relationships. In order to fulfill the CEO’s requirement, all the real names and surnames of those from Firmago were replaced by fake names.

Acknowledgements

I would like to thank my advisor Professor Alexandre Dias da Cunha, who was always available to help me and guide me along the elaboration of the thesis.

With regards to Firmago S.A., I would like to especially thank João Cabral, who was always available to answer and to provide me the necessary information. Indeed, it would be impossible to have a realistic insight on the relationships of those involved in the business and from the family without his contribution.

A Problem of Consciousness and Affection

Just after leaving the first executive board meeting of the year 2014, the nonfamily CEO Pedro Sousa starts to get really worried about the future of Firmago S.A., but especially about the Pinto family. The meeting was a disorder and, once again, the board did not reach a consensus in the elaboration of an efficient organizational chart. He recalls the need for higher professionalization of the business, but the remaining time to do it is becoming scarce. However, what worries him the most is family sustainability: *“What is going to happen with the family when, in 2016, the company has to reacquire the capital held by the Fund? Will they be able to accomplish it? Who will be my successor? Does he or she have the management expertise to carry on with Firmago? This is worrying, because Firmago is their livelihood and, despite all the noise, I like and care about this family. I got really attached to them”*.

History of Firmago S.A.

After working for several years in the foundry industry, Alberto Pinto decided to apply his entrepreneurial spirit and accumulated know-how in the foundation of Firmago in 1969. Driven by his friendliness and network of contacts, soon Firmago became a benchmark in the city of Braga, Portugal. Nowadays, Firmago enjoys its position and reputation as one of the greatest in the Iberian foundry industry, supplying clients such as Siemens and ABB¹. Throughout its more than 40 years of existence, Firmago became Alberto's family breadwinner.

Not everything has gone well. In 2004, the company made a huge investment on a new industrial facility that opened in mid-2005. Pedro says: *“I understand they needed larger facilities to address greater orders, but these were rare”*. In fact, in the last decade the company's negative financial situation (Exhibit 1), characterized by a lack of cash flow, precluded its ability to track new orders and to write off debt. In July 2010, with the aim of solving liquidity problems, Alberto decided to strengthen the company's shareholder equity through third party funding. They convinced a venture capitalist from the Portuguese Grupo BES to invest through one of its funds², and actively

¹ Firmago S.A.2012. Corporate Information - Clients. <http://www.firmago.pt/clients.php>.

² Fundo de Capital de Risco PME/BES. 2005. *“Regulamento de Gestão”*. <http://web3.cmvm.pt/sdi2004/fundos/docs-/665RG20042005.pdf>.

participate in the business. Even though the venture capitalist (Fund) just intended to overlook the company's performance, they realized the need of hiring an expert endowed with the necessary managerial skills to restructure the organization and to retrieve the value created along the years. In exchange for this financial and managerial support, Firmago signed a contract granting management decisions to the Fund and its representative for six years (Exhibit 2). Only under this legal power over Firmago have they been able to conduct a restructuration plan.

Core Business & KSFs

Firmago's core business is in the production of aluminum gravity castings in sand and in die mould. Initially, Firmago answered specific orders from multinational clients inserted in the energy sector but along the years it started comprising industries such as petrol, automotive, mechanical engineering, and others.³ Nowadays, it exports more than 80% of its production to countries such as Germany, France, United States and Norway.⁴ The new production unit (mid-2005) is equipped with the latest technologies that allow them to keep meeting the exigent demand while ensuring their commitment and longtime client relations. Firmago's production process encompasses five sub-processes (Exhibit 3) which were thoroughly designed to contribute with precision to the final product.⁵ Also, there are more than 100 skilled employees (predominantly foundry workers) that work hard to guarantee the best quality in the final product. After inspection, international quality certificates are issued.

Human Resources

The company is still working on the definition of an accurate corporate organizational chart, but structurally the company is divided in three groups: a labor force that works on each of the five production sub-processes, a second-line of managers who are responsible for each of the sub-processes and back office operations and a first-line of managers empowered with decision-making and that take part in the executive board.

³ Firmago S.A.2012. Corporate Information - Type of Industries. <http://www.firmago.pt/clients.php>.

⁴ Firmago S.A.2012. Corporate Information - Markets. <http://www.firmago.pt/about.php>.

⁵ Firmago S.A.2012. Corporate Information - Production Processes. <http://www.firmago.pt/services.php>

Labor Force and Second-line of Managers

Pedro says: *“As President and owner of the business, Alberto always wanted to pay his employees above average industry salaries. In the absence of other motives, this was the motivational factor valued by the workers”*. However, the company’s slowdown led him to cut on wages. The straight commitment of the majority of the workers, whose professional life was entirely spent at Firmago and whose salaries were still above the average of the industry was not harmed. According to Pedro this is true because *“Almost everyone on the low levels of the organization do not have academic background, which results in a lack of ambition, of need to change and of will to improve”*. Secondly, there is some emotional attachment: *“These workers identify themselves with the kind of work performed and feel proud of being part of a company full of history and prestige”*. Overall, the labor force is characterized by its self-indulgence and Pedro sees this as a threat to business’ productivity.

With regards to the second-line of managers things have changed over time: *“A considerable number of managers have been dismissed, some because of the easiness of Alberto to fire those he thought did not have the capacity to manage, and some that could not stand working in such a tough family environment”*. On the other hand, there are those who have persisted over time and who are essential to maintain the continuity of the business, particularly the commercial manager José Quina, who joined the business in 1997. In mid-2005, when operations started in the new manufacturing facility, he was the one alerting Alberto about the company’s tough financials (Exhibit 1) and the incapacity of the siblings to manage. Pedro says that *“José is by far the best human asset at Firmago. He has the ability to speak different languages, which is fundamental to establish the bridge with the external market, especially when dealing with foreign customers. He is a multifaceted person by nature. In fact, he is the only manager with academic background in the foundry area and the most knowledgeable person at Firmago”*. Evidently, the metallurgic engineer has started in the machinery operations’ sub-process and has managed almost all positions within the company. When Pedro came into the business, he nominated him to assume the deserved role as commercial manager. Before him it was Ana Pinto, the eldest daughter, assuming this function. Pedro considers him a top manager: *“He is one of the best professionals I have ever worked with. He just lacks some ambition”*. Nonetheless, José had

experienced tumultuous relationships with the family members, mainly for bringing his own problems into the family business.

Pedro also emphasizes two other managers who have contributed positively to Firmago and to greater family harmony in recent years. In Firmago since 1991, Rita Bispo is the commercial assistant in whom José delegates back-office responsibilities. Pedro characterizes her as a determined and perseverant woman and emphasizes her dedication to the company and the family: *“She fights for the company as if it was her own”* and *“She was present in all the family’s difficult moments, so she earned their full trust and empathy. Although she views the family’s unity as weak, the family loves her and considers her a friend. Because of this complicity she plays an important role for integrity in the business”*. Mónica China is who Pedro truly considers as the financial director of the company: *“She joined Firmago in 2009, when the critical phase began, and endured the situation due to a herculean ability to deal with delays in payments to suppliers. She is an excellent professional in a key position at Firmago”*.

On the counter parts, the nonfamily CEO disagrees with the participation of Gonalo Alvim in the business even though he is married to Ana Pinto and thus son-in-law of Alberto: *“He is responsible for two of the most important positions at the company - procurement and maintenance. Though he is dedicated, the importance of his roles would definitely require a more knowledgeable person. I am not the only one claiming it. For instance, Vera totally discards his capacities as a manager as well as Fernando who also has some doubts about him”*.

Pedro believes that this second-line of managers could be yielding greater productivity if there was a deeper knowledge at the top of the pyramid or, at least, a senior example that could help them grow professionally. Additionally, he says there is some cluelessness about the needs of the business: *“There are managers who need management assistance, but the family has been delaying hiring someone”*. Moreover, despite the fact that all of them are aware of Alberto’s aging *“They seldom contradict him. They do the opposite: they demonstrate a sense of subservience, respect and even some fear”*. With regards to the siblings, the nonfamily CEO says that the second-line of managers value the eldest daughter for hiring almost all of them, but fear her profound emotional instability; they sympathize with Fernando but consider him a little bit

childish and inconsistent, which interferes with overall respect for him; they do not care about Vera due to her underactive participation in the business.

First-line of Managers

This line of managers comprises the nonfamily CEO Pedro Sousa and the active family members: Alberto, Ana, Fernando and Vera. It is in this category that *“The frame is truly worrying, due to a glaring lack of managerial expertise and business know-how”*. In 2010, Pedro encountered a mismanaged business in which authority and decision-making were scattered. Still, as a nonexecutive administrator and safeguarded by the shareholder agreement, he took the reins in management in order to revitalize the business. Soon, Alberto realized his capacities and invited him to the executive board and to assume the position as CEO. Pedro was conscious about the daunting task of helping Firmago, even more when considering it was the first time in more than 40 years of existence that the company had a nonfamily manager running the business and enforcing strategic decisions. Regardless of the shareholder agreement that empowers him on decision-making, Pedro does not exercise it in an authoritarian manner. Quite the opposite, he takes others’ opinions into consideration and tries to gather consensus, always aware of the fact that if it were not for someone persistent and capable like him, the company would probably have no future: *“There is no family member with full capacity to manage the company. Alberto is highly cultured on the process and very focused on work, but despite the fact that he led the company through prosperous decades, he is now aging and battered, so his capabilities are no longer the same. To make things worse, recently he has been facing several health issues. Furthermore, as much as his wife is supportive of the family business, she knows nothing about it. The siblings have assumed greater responsibilities along the years but are not able to lead”*.

In order to understand the role of each of the first-line of managers and their relationships with the nonfamily CEO, brief descriptions are presented below:

Alberto Pinto was born in 1940 and he is the founder, the President and major owner of Firmago (Exhibit 4). He did not continue his studies after completing primary school, instead he started working for a foundry firm at just 18 years of age. In 1964, he married Emília. It was in 1969 that Alberto applied his expertise in the foundation of his own

company – Firmago S.A. Pedro strongly admires his commitment, but does not understand why he failed the succession planning.

Emília Pinto was born in 1941 and has the same level of academic education as Alberto. Though she does not have a managerial role at Firmago, she is an owner and the spouse of the President and, because of that, she has an impact on the management-family relation: *“She contributes positively to this relation by keeping the cleanliness of the facilities and its appearance, and by fostering harmony and good disposition among workers. However, she has been interfering more and more on the daily work, despite knowing very little about it”*. Pedro considers her constant opinions about the business as useless: *“Sometimes she is a bit flashy”*.

Ana Pinto was born in 1964 and is the eldest daughter. She completed high school and took a beautician technical course. After that, her father helped her financially in the opening of an aesthetics office, which only lasted one year. In 1994, Ana joined Firmago in the commercial department and, later on, she assumed the production department. Nowadays, she is the director of the *HR* department. She has promoted some successful organizational changes such as the institutionalization of the second-line of managers and its recruitment. Meanwhile, in 1986, she married Gonçalo Alvim, who soon joined the business. They have two children: Teresa (1986) who performs small administrative tasks at the company; and “Luisinho” (1992) who was dismissed from the business by Pedro. Still regarding Ana, Pedro has some reservations about her humbleness and considers her manipulative, but still an insightful person.

Fernando Pinto was born in 1965. He completed primary school but, instead of pursuing an academic degree, he decided to quit his studies. Because of that, his father forced him to work conjointly with the labor force at Firmago when he was just 15 years old. Considerably later, he ventured with a partner into the iron trade, but since the business failed he joined the family business in 1986. He got married in 1997 and has two children (1999 and 2007). He works and owns another company in a partnership with his younger sister Vera, which is managed by Fernando’s wife and Vera’s husband. For many years he did not have a particular role at Firmago, but his commitment to the business started being an added value in 2009. Among the siblings, he is the one who

spends more time at the facilities. Although Pedro doubts about his managerial expertise, he was consensually appointed industrial director by the executive board.

Of the three siblings, Vera Pinto is the youngest. She was born in 1967. She has a degree in Philosophy and Business Development from *Universidade Católica de Braga*. In 1986, Vera started her first job as a back office administrator at Firmago. She used to be the financial manager until 2010, but “*Given the poor financials of the company and her lack of expertise I decided to pull her out in order to balance the company’s accounts*”. She got married in 1999 and has two daughters (2000 and 2002).

Pedro Sousa is the nonfamily CEO of Firmago. Pedro was born in 1965. He initiated a degree in management but did not conclude it. Regarding his professional experience, he started at *Empor* as a commercial assistant (1987) to later become the manager of the cotton sector. Successively, he assumed the position of CEO between 2006 and 2009. In the end of the year 2009, Pedro launched his own profitable business in the cotton industry. In 2010, he was challenged by a group of directors from the *BES Grupo* to assume a nonexecutive administrative position at Firmago. Only one month after joining the business, he was invited by Alberto to become part of the executive board and assume Firmago’s global operations as CEO.

Year 2010

The Rescuer

Firmago has always been able to grow organically and to solve challenges of scale by making use of bank loans. However, the recent tough financials (Exhibit 1), mainly due to a hefty and continuous use of bank loans, eroded the working capital needed each year. This dreadful spiral almost led Firmago to bankruptcy. In July 2010, Firmago formalized a 6’ year contract with a capital risk Fund from Grupo BES - *Fundo de Capital de Risco PME/BES Capital Growth*⁶ - in order to keep the family’s hope for continuity of the business. The conditions stated in the agreement are tight (Exhibit 2).

In September 2010, the Fund took part on the ownership structure of Firmago underwriting an increase on capital of 500.000 €. At the same time, the family injected

⁶ Fundo de Capital de Risco PME/BES. 2005. “*Regulamento de Gestão*”. <http://web3.cmv.mpt/sdi2004/fundos/docs-665RG20042005.pdf>.

1.500.000 € contributing to a total increase on capital of 2.000.000 € (Exhibit 2). Besides that, the two parties signed a shareholder agreement which states that, during the following 6 years, the voice of the Fund's representative – Pedro Sousa – shall prevail. It is this shareholder agreement that allows him to exercise his functions at Firmago: *"I can take management decisions because I am empowered by the shareholder agreement. Otherwise, contradicting this family would probably lead to jump me out of the business, as happened to previous capable nonfamily managers"*.

Complexity of the Restructuration Plan

As soon as he joined the business, Pedro established two short-term objectives: to revamp financial stability and to design an organizational chart that could thrive.

Management was hampered by a lack of financial literacy, and *"Basically, the company's cashier was also the family's one"*. Besides that, the 5 to 6 months that it took to sign the contract led the company to indebt itself even more, so when the Fund came in with the 500.000 € in fresh money, 80% of it was immediately applied in debt' payments. Regarding its first objective, Pedro promoted two important changes that indeed have contributed to rescue its financial control: *"Firmago didn't have a positive result since it has moved production to the new facilities. Firstly, I knew I had to control the cash inflows and outflows given the poor company results and the imminence of bankruptcy. Secondly, the Fund obliged the family to cut on perks and on salaries"*.

After succeeding this first goal, the priority is to elaborate an organizational chart. There was a first attempt to do so, but it sparked confusion, so the CEO knows he has to undertake small steps to make the family accept change: *"They don't respect their positions within the company. They all decide upon matters that are not part of their roles"*. Anyway, he says *"Now the family seems more prepared to accept a real segregation of duties. They have to understand each one's responsibilities"*. There are several aspects to be considered in its elaboration: ensure everyone's commitment, reach consensus, guarantee that the first-line of managers have the necessary expertise and skills, and elect a family member to become the family's representative on the board.

Perspective of the Nonfamily CEO

Given that it was his first time as CEO of a family business, Pedro felt the need to consult an expert to help him understand more about Firmago, the family-management-ownership relation and family' members. Bruno Vilar, who is APEF's⁷ President and friend of Pedro, made him an extensive questionnaire covering the following topics:

- The family genogram; (Exhibit 5)
- The role of the President; (Exhibit 6)
- The role of the Spouse of the President; (Exhibit 7)
- The failure on the elaboration of an estate planning; (Exhibit 8)
- The family-management-ownership relation; (Exhibit 9)
- The environment for nonfamily managers. (Exhibit 10)

While waiting for Bruno's official results, Pedro decided to attach the questionnaire responses to his notes. This way he has more information to face his dilemma. Bruno also lent him a *McKinsey Quarterly* release regarding management performance by ownership type (Exhibit 11), which he thought would be an added value.

Structure of the Family and Its Relationships

Before the Fund participation, whenever the business generated profits, Alberto channeled it towards the family. Instead of investing the surplus on a vocational-oriented education for their children, Alberto and Emília used it to enjoy perks such as expensive cars. Although Alberto didn't want his children to participate in the business, he felt the obligation to employ them, realizing that their poor academic background and/or professional experience were a barrier to their employability in another company.

Regarding family' relationships (Exhibit 5), Alberto was known for being a very tough person, particularly with Fernando. Besides forcing him to work since a very early age at the company, he was very rough on him. This rigidity created a discipline in Fernando, but it also fostered a tough relationship between both. In his twenties, Fernando started demonstrating a natural aptitude and commitment towards the business, yet it took a long time for his father to delegate him greater responsibilities. On the other hand, Alberto has always demonstrated great affection for Ana. He allowed her eldest granddaughter Teresa to start working at Firmago, just because Ana

⁷ Associação Portuguesa das Empresas Familiares. 2010. www.empresasfamiliares.pt.

had requested it. With respect to Vera, Alberto feels proud for her academic degree, but still does not have a close relationship as he does with Ana.

Despite the fact that their marriage having survived for 40 years, Alberto and Emília have a very conflicting relationship. Pedro says: *“He used to be an absent husband and father, but his aging has turned him in to a better steward of the family. In fact, his delicate health condition has made him a more comprehensive person. Before being submitted to a lung surgery, he spoke with Emília and the children in order to clarify his ideas for the future of the family and for the continuity of the business. He said he would like his son to assume the business legacy and the role as family protector”*.

Considering the siblings, Fernando and Vera always had a good relationship (not that it is full of affection). They instilled a much more logical and rational education on their children when compared to Ana. They argue that there should be meritocracy in order to integrate the business. On the contrary, Ana is overprotective and she claims that “Luisinho” should re-integrate the business and become the natural successor of the third generation. Fernando and Ana have a very difficult and unstable relationship, because they have antagonistic visions and reasoning about the business. Fernando has tried to get along with his sister, but he says she is insurmountable. According to Pedro, *“Ana is the smartest, especially when compared to Fernando who is too humble and innocent. She tried once to convince him to assume Firmago’s presidency so that later she could benefit from more preponderance”*.

Even if the family unity is weak, they still protect each other against others. They may share their problems with nonfamily workers at the company, but they never allow a person to judge them or to raid the family sphere. For example, *“Emília vents a lot about family problems with nonfamily managers, but she does not allow them to state any comment about it”*. Despite all, the family tries to overcome disagreements by hiding them or, merely, by not facing them.

Active Family Members in the Business

Pedro says that the family sphere undermines his ability to manage the company (Exhibit 9), since *“There is too much noise brought by them into the business”*. He points the lack of emotional intelligence as a decisive factor. There is also some

incongruence with their aims of greater family unity, since he doesn't recognize any family values, message or educational standards that could have been passed across generations. Overall, he says that *"The family is too impulsive, conflicting, unknowledgeable and negatively emotional"*, but still likes them and feels well treated. With regards to their managerial and ownership roles, Pedro says: *"This is a typical situation from small family businesses, mainly in the North of Portugal. The enterprise is clearly an extension of their homes and, naively or not, almost everyone tends to behave as an owner. Regarding management decisions, sometimes they don't even consult me. Additionally, they occasionally bring family issues on board meetings, delaying the process and contributing to the loss of productivity. For example, we have been trying to discuss the design of an organizational chart since May 2012, but almost two years have gone and things are still the same"*.

Pedro rejoices about Fernando's commitment and their good relationship: *"My intuition tells me he is the best to succeed me. He is who better knows the business and how to project it"*. However, the CEO considers him too optimistic, boyish and naïve, and says he lacks some basics: *"He seeks growth without first attempting to rectify short-term issues. Also, he is hard to convince and does not fully respect the hierarchical structure, which may be positive or negative, depending on the situation. For example, when we needed a machinery instructor to teach our labor force, Fernando applied his great book of contacts and soon hired an excellent professional to do it. However, Fernando introduced the instructor directly to the labor force without first consulting the responsible for the machinery sector, who naturally got upset"*.

Pedro believes that Ana is who benefits from superior insights of how to manage a firm and is the only with a vision, however *"She rarely appears at Firmago"*. She constantly seeks advices externally (e.g. friends), and is aware of the need for an organizational chart and for greater professionalization of the business. Therefore she is very supportive of the CEO's decisions, but he suspects that this rapprochement is meant to gain advantage towards the siblings for the future leading position at the firm. With regards to her weaknesses, the CEO says she is financially illiterate: *"After we have approved the 2012 annual budget, she decided to increase some salaries of the labor force. Even being the head of the HR department, she couldn't take this decision without the consent of the board. Besides that, she exceeded the annual budget"*.

With respect to Vera, Pedro says she is too quiet and distant, and that sometimes she can be unpleasant. He says it can be linked with her loss of autonomy and prominence in the finance department: *“This organizational change might have contributed to turn her off even more”*. Although not knowing her as well as he knows the other siblings, the CEO highlights a positive sense of initiative: *“Before I came in, she was the only one assuming the desire for management control at Firmago. At that time, Alberto didn’t consent her proposal, because, in exchange, she wanted her father to fire her sister’s husband.”* Nevertheless, he says *“She does not respect the company’ working hours even though she demonstrates willingness to lead”*.

Pedro has a high regard for Alberto, especially for having founded the company almost alone and for his total dedication to it. Though he admires Alberto for that achievement, *“Nowadays his aging constitutes a barrier in the decision-making and he has already lost some of his managerial capacity and structural reasoning”* (Exhibit 6). Pedro points three actions that Alberto should have taken when he had time: invest properly in the education of his children, delegate more power and leave the business at the right time. Moreover, Pedro affirms they have a cordial relationship characterized by mutual respect, even though they have completely different visions about Firmago.

Major Challenges for Continuity

Alberto and the family have the will to keep the business, however in order to do so, they have to firstly buy back the Fund’ shares till July 2016 (Exhibit 2). The Fund intends to cease its participation by selling its shares, because this is not their core business. The CEO identifies four viable options for buy back: *“The family may spend its own money, resort to other private investors, negotiate partnerships with other industrial companies or eventually raise more loans which could worsen their debt structure”*.

Secondly, they need professionalization and, to start with it, they have to institutionalize a new organizational chart. Additionally, since there was little knowledge transferred across generations, they have to acquire greater expertise: *“Without managerial expertise they will end up again with no money, not knowing how to move further and with limited or no access to raw materials. For example, they should have someone capable of when renegotiating deadlines with investors”*. He adds: *“I understand them*

when they say that greater professionalization might mean some loss of family' management control, but the company itself needs it". Furthermore, the first-line of managers shall improve its analytical skills: "I try to teach them how to use Excel and I provide them financial data to be analyzed, but they lack essential analytical skills".

Thirdly, *"Work and commitment must be valued and the professional environment for nonfamily workers has to improve"* (Exhibit 10). The CEO claims that only Fernando and Emília truly recognize that his work has effectively improved management at Firmago. Pedro argues that they should have rewards on performance, such as a salary' adjustments: *"I was invited to the executive board in October 2010, yet I still earn less than all the family members, even after their salaries have been cut"*. Furthermore, even if there is some hierarchical proximity that eases the access to the board, there is too much family conflict dissolving what could be an advantage for the family business.

Finally, the family didn't plan succession (Exhibit 8), though in July 2016 the Fund will exit the business and someone will have to assume the position of the nonfamily CEO.

Nonfamily CEO and His Continuity in the Business

"Should I or should I not continue in the business after July 2016?" In fact, and besides the conflicting environment, he likes the family and loves his role as CEO at Firmago. He imposes some conditions for his continuity: *"First of all Firmago will have to buy back the Fund' shares. Secondly, I have to be sure that the family actually wants me to continue as CEO. Thirdly, I have to be given a good contract, one that states that I earn at least as much as the family managers. Finally, they would have to take into consideration other requirements such as: accept greater business professionalization, which could include dismissing one or two family managers and possibly hiring nonfamily ones; and I would have to be given the ultimate word on decision-making"*.

Dilemma

The deadline is July 2016 and Pedro Sousa knows that a decision has to be made: *"Who will succeed me? Is one of the three siblings capable of leading the company and reach success? Do they need and want a nonfamily CEO? Till what extent would a nonfamily CEO be positive to the family environment?"* (For a more detailed analysis of the family' candidates please have a look at Pedro' notes in Exhibit 12)

Exhibit 1 - Income Statement (2006-2013)

Year	2006	2007	2008	2009	2010	2011	2012	2013
Sales	5.692.310 €	6.364.496 €	7.311.308 €	5.237.543 €	5.890.984 €	6.990.843 €	6.599.131 €	6.832.351 €
EBITDA	199.700 €	- 47.000 €	954.350 €	446.500 €	441.500 €	970.624 €	1.148.074 €	1.387.680 €
Operating Profit	- 173.300 €	- 762.000 €	361.700 €	- 163.200 €	- 124.100 €	380.579 €	569.404 €	806.53 €
Financials	410.200 €	- 514.800 €	- 503.400 €	- 466.800 €	- 459.600 €	- 214.312 €	- 277.052 €	- 368.137 €
Net Income	- 583.300 €	258.600 €	- 127.400 €	- 482.600 €	- 498.100 €	80.495 €	193.623 €	232.233 €

2006: Official starting year of the new industrial facilities; 2010: The Fund enters in 29th July.

Source: Firmago S.A. 2013. Corporate Information.

Exhibit 2 - A Summary of the Contract Signed by the Parties

When negotiating with the family, the Fund decided to involve another company – a real estate business - owned by the Pinto family in order to diversify the investment risk. In July 2010, a net increase on capital of 2.000.000 € (from 750.000 € to 2.750.000 €) has befallen. This increase was subscribed as the following:

- The Fund comes in with 500.000 € in free cash;
- The real estate business¹ comes in with 750.000 € as a loan granted by the Fund through the *Grupo BES*;
- The family comes in with 750.000 € through a bank loan (no real family inflow of cash).

Besides that, the 6' year shareholder agreement includes five main clauses:

- The Fund and its representative have the ultimate power over decision-making at Firmago;
- The Fund and its representative decide upon the application of annual profits;
- The Fund and its representative decide upon the distribution of dividends;
- The family owns a put option with the right to sell the real estate business within the 6' year contract. If they don't exercise it, the Fund will own the put option after the deadline.
- At the end of the 6 years, Firmago shall buy the percentage owned by the Fund. The **deadline is July 2016**.

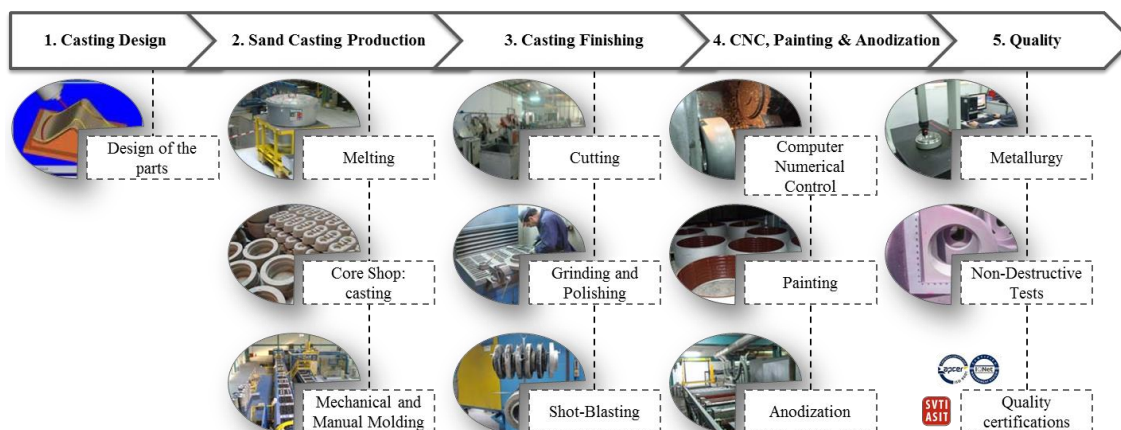
¹ The real estate business

The Fund was convinced that the real estate was going to generate higher *ROE* than Firmago; however the great recession in Europe in 2009 has ceased those expectations and started hindered growth at Firmago. Nowadays, the real estate business is a tremendous problem since revenues do not outweigh the costs and given and the family seem unwilling to sell it.

- The real estate business is composed by seven industrial warehouses, which benefit from being located alongside a highway.
- Alberto owns 99% of the real estate business whereas his children own together 1%, which ensures that Alberto is still major owner of Firmago (Exhibit 4).
- In case of default, the warranty is the real estate business. Still, on the shareholder agreement there is clause overwriting a put option.

Source: Firmago S.A. 2013. Corporate Information.

Exhibit 3 - Production Processes



Source: Firmago S.A. 2012. Corporate Information - Production Processes.

Exhibit 4 - Ownership Structure (Before and After 27.07.2010)

Ownership Structure – Before 27.07.2010			
Shareholders	Shares	Value	Percentage
Alberto Pinto	90.000	450.000 €	60,0%
Emília Pinto	37.500	187.500 €	25,0%
Ana Pinto	7.500	37.500 €	5,0%
Fernando Pinto	7.500	37.500 €	5,0%
Vera Pinto	7.500	37.500 €	5,0%
Total Capital	150.000	750.000 €	100,0%

Ownership Structure - After 27.07.2010			
Shareholders	Shares	Value	Percentage
Alberto Pinto	180.000	900.000 €	32,7%
Emília Pinto	75.000	375.000 €	13,6%
Ana Pinto	15.000	75.000 €	2,7%
Fernando Pinto	15.000	75.000 €	2,7%
Vera Pinto	15.000	75.000 €	2,7%
Sociedade Imobiliária, S.A. (owned by the family)	150.000	750.000 €	27,3%
Fundo de Capital de Risco BES PME	100.000	500.000 €	18,2%
Total Capital	550.000	2.750.000 €	100%

Source: Firmago S.A. 2012. Corporate Information – Ownership Structure.

Exhibit 7 – Questionnaire: Role of the Spouse of the President

Bruno Vilar required the following True/False from Pedro Sousa in order to understand the role of the spouse of the President:

1. Her independent vision of the business enhances others' respect others and is of great importance to the family.	True
2. She believes she is an example for the next-generation to follow.	True
3. She prefers not to get involved in business' issues, although she is available as a counselor.	False
4. She doesn't demonstrate neither the will to assume partial control of the company nor the necessity to gain recognition.	True
5. She assumes an important role in the integration of next-generation family members in the business.	True
6. She fights family' isolation.	True
7. She began as a business partner at Firmago and participated on its early stages of development.	True
8. She comprises the time spent by her husband at the company and she is not jealous about it.	True
9. She advocates a succession plan and the transition of power by placing them on the agenda of the President.	True
10. She is proud of the family business and is interested about it.	True
11. During the difficult periods of the company, it was the spouse of the President keeping the family together.	True
12. She is considered a candidate to assume the role as President in case of unforeseen health problem of the President.	False
13. Is she a partial owner of the business?	True
14. She is responsible for projects in the company.	False
15. Is she a trust catalyst for the family and the business?	True
16. Has she invested financially in the company?	True
17. She has endeavored for her children to become interested about the business.	True
18. Does she advocate greater professionalization of the business?	False
19. Does she have all the required abilities and skills to become a CEO and / or President?	False
20. She prefers to develop an identity distantly from the family business.	False
21. She promotes family values which are crucial for the continuity of the business.	True
22. She claims that the family business withdraws time and harmony to family unity.	False
23. She often remembers active family members of the need to balance family and work.	True
24. Does she feel the necessity to be involved on the family subjects related to the business?	False
25. She feels that the family business became the priority to her husband and President.	True
26. She is concerned about helping others solving problems in the family business.	True
27. She acts like a mediator, facilitator and promotes good communication.	True
28. Does she have a long-term vision about the business?	True
29. Did she ever take initiatives such as the creation of a family council?	False

Source: Poza, Ernesto J. 2010. "Role Types of the CEO Spouse and the Transfer of Power". In Family Business, 3rd ed., Mason, Page 119-128. OH: South-Western Cengage Learning.

Exhibit 8 – Questionnaire: Failure on the Elaboration of an Estate Planning

Bruno Vilar required a classification from Pedro Sousa in order to understand which reasons better explain the failure on the elaboration of the estate planning (scale: 1 is for very weak and 5 for very strong):

A. There is an excess of optimism that everything will happen naturally and efficiently.	3
B. There is a priority for the company to solve short-term issues.	4
C. There necessity to integrate professional advisory and their high costs for the company.	4
D. There is some aversion to insurance companies and insurances.	1
E. The President avoids the theme because he knows that would imply planning his exit from the company.	4
F. The President fears the deterioration of the family relationships and conflicts.	3

Source: Poza, Ernesto J. 2010. "Pitfalls to Avoid in Estate and Ownership Transfer Planning". In Family Business, 3rd ed., Mason, Page 196-198. OH: South-Western Cengage Learning.

Exhibit 9 – Questionnaire: Family-Management-Ownership Relation

Bruno Vilar required the following True/False from Pedro Sousa in order to understand the priorities of the family in terms of management, ownership and family:

1. Family managers have personal opinions about capacity and the limits of the company, but they manage according owners' interests.	True
2. Although involving nonfamily managers in the business, the family shows little affection towards them.	False
3. Compensation is based on meritocracy and not in the hierarchical position of the family members.	False
4. Family issues are considered more important than management and ownership spheres.	True
5. Family members present some financial secrecy.	False
6. Managers are constantly pressured by the owners of the company (family) to obtain good results.	False
7. Non-active family members exercise pressure towards the achievement of good results.	False
8. Family members and the next-generation are evaluated in accordance to their utility and real contribution.	False
9. Regardless of the different responsibilities, the company tends to compensate equally the active family members.	True
10. The family considers selling the company in order to recover the value created by past generations.	False
11. The company discourages family members to work in the business.	False
12. Family problems may cease the continuity of the family business.	True
13. The integration of the next-generation in the business is a birth-right.	True
14. Return on equity is the most relevant goal in the business.	False
15. The performance of family managers and nonfamily managers is assessed in the same way.	False
16. Having professional experience is a pre-requisite for family members to integrate the family business.	False
17. A lot of perks are transferred from the business to the family sphere.	False (they used to do it, but nowadays they don't)

Source: Poza, Ernesto J. 2010. "CEO Exit Styles and the Transfer of Power". In Family Business, 3rd ed., Mason,

Page 112-117. OH: South-Western Cengage Learning.

Exhibit 10 – Questionnaire: Environment for Nonfamily Managers

In order to assess if the business environment for nonfamily managers is satisfactory, Pedro Sousa answered True/False and complemented it with his opinions to the following:

- A. It exist family/nonfamily management teams that provide complementary skills at the top and set benchmarks for running the family business professionally.
False.
- B. The discussion of career advancement opportunities for nonfamily managers is made with candor.
True.
- C. The strategic planning and the succession plan involve nonfamily managers. Soliciting their participation in discussion of the strategic direction of the business gives them a much greater sense of inclusion and more focused motivation.
False. There are no strategic planning and succession plan. If something is done about it, it will be done by me or by someone from the Fund, since nobody else has those capacities.
- D. The company offers compensation and benefit plans that are benchmarked to others in the industry.
False. Even though Firmago improved financially, I have never received an increase on my salary. I believe I deserve more, but firstly we have to structure the organization and make the family understand how to deal with financials. Apart from that, it is important to refer that the shareholder agreement doesn't allow for dividend's distribution.
- E. The company uses performance measures – scorecards – to build motivation.
False. It is too early to implement it.
- F. There are periodically meetings between key nonfamily managers and shareholders to promote mutual understanding and respect for the different roles and contributions of each.
True.
- G. The company invests on the education of the entire family, whether active or inactive in the company, about business and management in order to create common ground between family and nonfamily managers.
False, and honestly that is indifferent for me.
- H. The company surveys nonfamily managers periodically to assess the work climate and determine whether the relationship between management and ownership is healthy or requires attention.
False.
- I. The contribution of the nonfamily managers to the family business is emphasized in order to ensure that the balance between family and nonfamily is right.
False. They do not attach my work to the improvement on performance. If they did it, it would mean they recognized their failure in the past.
- J. The active family members do not benefit from special treatment when compared to other employees. They follow the same discipline and rules.
False. It would be essential to follow the same discipline and rules.
- K. The company has an advisory board or board of directors with independent outsiders. Such boards help nonfamily managers to feel confident that the family company is being run professionally and objectively with merit as the major determinant of success.
False, however I don't think this is a priority right now. That's something to do later. The company needs greater scale for that purpose.
- L. There is a family constitution that spells out policy on family employment and family-business relations.
False. It would be important to have a kind of a family' guideline. For example, it should state that there can't birthright or that they must have professional experience prior to their integration on the family business. It is crucial to make them know how to manage without the influence of being an owner.
- M. The company hires high-caliber key nonfamily managers to be bridging Presidents or full-term CEOs of the corporation and business mentors of the family shareholders. A nonfamily CEO can serve as a bridge across a generation of owners.
False. I entitle myself as CEO because in practice I do manage like one. Unfortunately, I only assume this title under the shareholder agreement. Although the family seems to be more flexible about it, it is still hard for me to manage properly.

Source: Poza, Ernesto J. 2010. "Ways to Create a Beneficial Environment for Nonfamily Managers". In Family Business, 3rd ed., Mason, Page 239. OH: South-Western Cengage Learning.

Exhibit 11 - Management Performance of Family Businesses by Ownership Type



Source: Bloom, N., Genakos, C., Sadun, R. and Van Reenen, J. 2011. "Management Practices Across Firms and Countries". Centre for Economic Performance. CEP Discussion Paper No 1109: Page 47.

Exhibit 12 – Notes from the CEO about the family candidates for succession

Profile of a perfect candidate	Ana	Fernando	Vera
A. She/he knows the business and is interested about it.	Yes.	Yes.	Not as much as the others.
B. Knows her/his strengths and weaknesses; demonstrates the necessity to acquire experience outside from the business; has the necessary academic education.	She knows her strengths and weaknesses. She resorts to external advisors, but does not have sufficient academic background.	He doesn't know his strengths and weaknesses, however he demonstrates an increasing will to learn since I joined in business	She knows her strengths and weaknesses. She shows interest in getting advising. She has the most proper academic education.
C. She/he has the will to become a leader and to serve others.	She has the will of becoming the leader at Firmago, but not to serve others.	When Alberto pointed Fernando as his natural successor, he became more confident about it. He enjoys pleasing others, yet he is not a natural leader.	Although she has the will, she does not have the true capacity to lead and much less to serve others.
D. She/he is being monitored by the current generation, by external consulting and / or by an external board of directors.	No. However, she looks for external advisory and enjoys learning.	No.	No.
E. She/he has a good relationship with others, especially with the other candidates.	Almost true. She has a very difficult relationship with Fernando.	The one who best relates to others. He has tried to get along with Ana.	No.
F. She/he has earned the respect of nonfamily employees, suppliers, customers, and other family members.	Not sure. I know she has a good relationship with the second-line of managers and that they like her and respect her.	Yes, but not from everyone. Actually, he is very sympathetic, however he is impulsive and sometimes he mistreats others.	No, not even close.
G. Her/his capacities and competences satisfy the strategic needs of the business.	No.	No.	No.
H. She/he respects the legacy and focuses her/his energy on the continuity of the family business and on the family.	Yes.	Yes.	Yes, but less than others.
I. She/he has the following competences: <ul style="list-style-type: none"> Marketing and Sales; Financial literacy; Strategic Planning. 	Good competences on Sales but poor on others. Still, she is slightly better than others in each of these competences.	He is weak in everything.	Although she has an academic degree, she is very weak on everything.

Source: Poza, Ernesto J. 2010. "A Profile of Successful Successors". In Family Business, 3rd ed., Mason, Page 89.

OH: South-Western Cengage Learning.

Teaching Notes

This case-study was developed to provide instructors and students the opportunity to discuss matters related to one of the main issues that family businesses face: succession / transfer of power. This case-study is meant for analyzing and discussing in courses related to family business.

The case was written from the perspective of the current nonfamily CEO so, in order to enjoy the learning process, students shall think as personal advisors and help the CEO, deciding upon who should take his position in the near future. For this purpose, students will need to understand and assimilate the complexity of the family' relationships, evaluate individual contributions to the family business and realize the managerial needs of the business, so they may discuss procedures and strategies to apply.

Suggested Questions for Analysis

- 1) *Help Pedro Sousa understanding the reasons why management was and is still underperforming.*
- 2) *Classify the contribution and the attitude of the major owner and President of Firmago towards the business since its foundation.*
- 3) *Who is the best candidate to succeed Pedro Sousa? Should you consider him as a candidate? Which are the pros and cons?*
- 4) *Imagine you have the opportunity to meet Alberto Pinto. What would you tell him if you want to convince him about the positive impact of nonfamily managers? What are the main considerations if he wants to hire another nonfamily manager?*
- 5) *Evaluate the impact of the role of the President's spouse in the family, in the management part of the business and her contribution when choosing the next CEO.*

Analysis of Suggestions

1) To address this question, students may use the *Notes from the CEO about the family-management-ownership relation*⁸ and *The Systems Theory Model of Family Business*⁹ (they shall refer *The Blurred System Boundaries*). They may also complement it with

⁸ Refers to Exhibit 9 and to Teaching Notes Appendix 1 for results

⁹ Refers to Teaching Notes Appendix 2 for a visualization of the model

The Agency Theory Perspective. This way, they will conclude that Firmago is very much like a family-first business, in which the family sphere overlaps management and ownership. This can be argued as the main explanation why management is underperforming.

Some arguments according to *The Systems Theory Model of Family Business*:

- Family members have distinctive motivations and priorities towards the business (e.g. individual contribution to the business and birthright vs. meritocracy);
- Meritocracy as a mean to reward does not exist (e.g. the nonfamily CEO contributed to improve financials but still receives lower salary in comparison to the family);
- The level of commitment to the continuity of the business across generations is poor and differs across family members (e.g. there is not an unique vision about the business);
- Too much family conflict, no family unity and stewardship (e.g. the genogram illustrates some of the family conflicts and key events);
- Firmago is the family' livelihood;
- Lack of managerial expertise from all the family members;
- Nonexistence of an effective organizational structure supporting management; etc.

Some arguments according to *The Blurred System Boundaries*:

- Family patterns, such as the great emotional level and lack of emotional intelligence that override management (e.g. Alberto vs. Fernando; executive board meetings full of disorder; pending family problems);
- Transferred perks from business to family members used to be ostensive (e.g. instead of re-investing in the business or in the academic education of the next-generation, the family used to buy expensive objects for the family);
- Each family member behaves like an owner (e.g. Fernando introduced the machinery instructor directly to the labor force); etc.

Some arguments according to *The Agency Theory Perspective*:

- Executive entrenchment (Alberto did not delegate enough power to his children and is still reluctant to transfer power to others in the company);
- Lack of career opportunities for nonfamily agents (e.g. if it was Pedro, José Quina would never have been promoted);
- Altruism of family owner-managers leads to increased agency costs because of their inability to manage conflict among them (e.g. relationship between Ana and Fernando; Vera volunteered to assume management control but in turn her father would have to fire her sister's husband);
- Self-imposed selection criteria (e.g. Ana is overprotective and she claims that "Luisinho" should re-integrate the business and become the natural successor of the third generation);
- Unclear segregation of responsibilities - family members in the business (e.g. Pedro says "*They have to understand each one's responsibilities*" and "*The enterprise is clearly an extension of their homes and, naively or not, almost everyone tends to behave as an owner*").

2) In this question, students shall: refer that the attitude, the managerial capability, the health condition, the status, etc., of the President have changed across time due to his aging; focus the nonexistence of a succession plan; enumerate the main failures

regarding estate planning¹⁰; discuss Pedro's notes about Alberto and determine his exit style¹¹. Some arguments are presented below:

From foundation of Firmago until today
Pros
<ul style="list-style-type: none"> ▪ Strong Leadership (until the siblings joined the business); ▪ Led Firmago to success; ▪ Resorted to a Fund (instead of bank loans) which allowed bringing managerial expertise; ▪ Invited Pedro to the executive board; ▪ Although late, he pointed a successor to lead at Firmago (Fernando); etc.
Cons
<ul style="list-style-type: none"> ▪ Inability to foresee financial problems (e.g. did not consider awareness from José Quina when investing in the new facilities); ▪ Enjoyed excessive power and autonomy (e.g. have never received any feedback); ▪ Reluctant to hire and /or to promote some of the nonfamily managers; ▪ Inattention to the needs and aims of the younger generation regarding the business; did not prepare them for responsible ownership and stewardship; ▪ Did not implement any governance institution such as an advisory board (e.g. reluctance to include advisors on the board), a family council or a family assembly that could help avoiding blurred boundaries (e.g. family' issues should be discussed outside of board meetings; Pedro requires one family' voice); ▪ Did not considered succession planning; ▪ Did not delegate power at the right time; did not planned the transfer of power or planned his retirement from the business; etc.

Students who want to further analyze the implications of the General or Monarch Exit Style may argue the following (the conclusion upon the style depends on the debate):

- These are the worst enemies of succession, which means that Alberto needs to seriously consider his attitude towards the business (and the family), or else he will keep being a barrier to Firmago's continuity.
- Is Alberto able to change his attitude towards the business? Students shall discuss the following scenarios. Scenario 1: yes, there are good predictors since Alberto pointed Fernando to become his successor; Scenario 2: No. Students may argue that the board shall hire independent counselors to help smoothing the negative impacts on succession and continuity of the family business.

3) Firstly, students shall identify the candidates: the second generation of family members – Ana, Fernando and Vera; José Quina, who is considered by Pedro the best nonfamily manager; and the current nonfamily CEO Pedro.

¹⁰ Refers to Exhibit 8

¹¹ Refers to Exhibit 6 and to Teaching Notes Appendix 3 for results

Secondly, they shall refer that the criteria to evaluate candidates must be discussed by all the members from the executive board and owners, in order to guarantee everyone's involvement and commitment (engaging and framing). Criteria must include the candidate's managerial capabilities, interpersonal skills, ability to relate with others, etc. (exploring and eliminating). Regarding the next-generation of family members, students may use a checklist such as the *Successor Grooming Template*¹² or the *Profile of Successful Successors*¹³ (presented below) to best decide upon the options:

Profile of Successful Successors	Ana	Fernando	Vera
A. She/he knows the business and is interested about it.	Green	Green	Yellow
B. Knows her/his strengths and weaknesses; demonstrate the necessity to acquire experience outside from the business; has the necessary academic education.	Yellow	Yellow	Green
C. She/he has the will to become a leader and to serve others.	Yellow	Yellow	Red
D. She/he is being monitored by the current generation, by external consulting and by an external board of directors.	Yellow	Red	Red
E. She/he has a good relationship with others, especially with the other candidates.	Yellow	Green	Red
F. She/he has earned the respect of nonfamily employees, suppliers, customers, and other family members.	Yellow	Green	Red
G. Her/his capacities and competences satisfy the strategic needs of the business.	Red	Red	Red
H. She/he respects the legacy and focuses her/his energy on the continuity of the family business and on the family.	Green	Green	Yellow
I. She/he has the following competences: Marketing; Sales; Financial literacy; Strategic Planning.	Yellow	Red	Red

Green: Strong; Yellow: Acceptable; Red: Weak.

(Deciding and explaining) Ana and Fernando are the true candidates. Ana is stronger on leadership, managerial expertise, resorts to advisory and has a vision for the business. On the other hand, she is much weaker on interpersonal skills and on relational ones when compared to Fernando. Considering a scenario in which Pedro and the active family members still have time to proceed with the implementation of an accurate succession plan, Fernando is the best option. The current CEO could guide him along the succession plan and prepare him to lead. He would have to acquire more competences mainly related to strategic planning and financial literacy. Contrariwise, Ana is a better option in a scenario in which the board does not have enough time to pursue a succession plan. She is by far who benefits from greater insights about the business, on how to manage and on how to structure the organization. Still, she would

¹² Walsh, Grant. 2011. "Family Business Succession: Managing the All-Important Family Component". KPMG International Corporate: Page 43.

¹³ Poza, Ernesto J. 2010. "A Profile of Successful Successors". In Family Business, 3rd ed., Mason, Page 89. OH: South-Western Cengage Learning.

have to improve on strategic planning. Unavoidably, she would have to learn how to serve others and to control her temper, especially with Fernando. There is an important cue regarding the options: Alberto and Pedro would vote for Fernando.

The second plot of candidates encompasses the nonfamily candidates José Quina and Pedro. In order to be true candidates, they and the family would have to be aligned with the business and in mutual accordance regarding interests. There must be a mutual need and a will to have, once again, a nonfamily CEO leading at Firmago. Students may use the *Primary Business Concerns of the Nonfamily Manager*¹⁴ diagram in order to identify the main constraints / requirements for the nonfamily candidates (e.g. *Business Tasks and Responsibilities* is the axis with the highest relative weight for Pedro). Below there are some of the Pros and Cons related to these candidates:

Pedro Sousa	José Quina
Pros	
<ul style="list-style-type: none"> ▪ Good relationships with the family; ▪ Knows very well the capabilities of the next-generation; ▪ Very strong managerial expertise; ▪ Excellent interpersonal skills; ▪ Continuity of the restructuration plan; ▪ Wise contacts (funding, banks, potential nonfamily managers); etc. 	<ul style="list-style-type: none"> ▪ Academic background in the foundry industry; ▪ Knows very well the business (17 years); ▪ Ability to foresee problems; ▪ Considered by Pedro as the best Human Asset at Firmago; ▪ Important to establish the bridge with the foreign markets; etc.
Cons	
<ul style="list-style-type: none"> ▪ Requires better environment¹⁵ at Firmago; ▪ Requires financial rewards on performance; ▪ Requires major decision-making power; ▪ Requires greater professionalization (the family would lost decision power and eventually some family members would be fired); etc. 	<ul style="list-style-type: none"> ▪ Hate-love relationships with the family members in the past; ▪ Lacks some ambition; ▪ Never led a company; etc.

Both are viable options. Choosing between one and another would basically depend on the following: choosing Pedro will subject Firmago to greater professionalization, meaning family' loss of control over decision-making and, eventually, firing one or two family members; on the other hand, choosing José Quina might jeopardize the continuity of the so far successful restructuration plan.

¹⁴ Refers to Teaching Notes Appendix 4

¹⁵ Refers to Exhibit 10

Overall there are four main candidates, however considering: the current business need for greater professionalization (management); the distinctive vision of the family members towards Firmago; the tough and old relationships within the family; and the individual' commitment and dedication towards the business; it seems that the family should enhance the continuity of Pedro from two to three years after the end of the contract. During this period, Pedro should proceed with the restructuration plan in order to smooth the impact of the Fund's exit, and also prepare Fernando so that he can later become CEO and President of Firmago, and thus satisfying Alberto's intentions.

4) Students could first enumerate a list of benefits arising from the existent nonfamily managers at Firmago, which encompass Pedro Sousa and José Quina (consider the resolution to question 3), Rita Bispo and Mónica China. Moreover, they may refer to other generic positive contributions of nonfamily managers: (a) managerial expertise, skills and ideas; (b) enable the company to grow; (c) establish benchmarks for performance; (d) strengthen the company by assisting with strategic planning; (e) help govern relationship between family and management; (f) transfer family values and vision to other employees; (g) mentor the next generation; (h) support the succession-planning process, etc. In sum, **a**, **g** and **h** are of greater importance in the case of Firmago. Also, students may indicate which changes should be promoted in order to guarantee the retention of the current nonfamily managers (e.g. include rewards on performance; recognize nonfamily managers' contributions; treat family members like others when they are at work; ensure information transparency; avoid abuse of the business by the family; create the opportunity for personal wealth) and to ensure the best possible environment at Firmago (students may use Exhibit 10 for discussion).

In the second part of the question, they may discuss how to avoid mutual resistance. For that purpose, they shall consider reasons for business cautiousness (*Is he or she going to be worth the money? How will the nonfamily manager get along with the family managers? etc.*), but also for nonfamily manager's cautiousness since it may help Alberto by creating awareness (*Will his or her ideas be heard? Will he or she have to work with incompetent family managers? etc.*). Finally, students shall consider what attracts nonfamily managers to family businesses (e.g. career opportunity; meritocracy; Firmago enjoys its position and reputation as one of the greatest in the Iberian foundry industry) and how to attract valuable nonfamily managers (e.g. offer long-term

incentives such as phantom stock and multiyear profit bonus; ensure 360° feedback for all family or nonfamily workers; Alberto could use Pedro's wise connections).

5) According to *The Role Types of the President Spouse*¹⁶, Emília is a keeper of family values. The table below presents some arguments sustaining her strong impact in the family sphere, her moderate (and not that positive) impact in the business (ownership and management), why not to consider her a candidate for succession, and why she is important in the process of choosing the next CEO.

Strong impact in the family	Moderate impact in the business
<ul style="list-style-type: none"> ▪ Very close relationships with her children; ▪ Promotes family unity and contributes for family integrity (Exhibit 7, nº 5, 6, 11); ▪ Promotes Family Values (Exhibit 7, nº 21); ▪ Supported the integration of her children in the business (Exhibit 7, nº 17); etc. 	<ul style="list-style-type: none"> ▪ Always supported Alberto and her children in the business (Exhibit 7, nº 8, 17, 22, 25); ▪ Daily presence at Firmago but no specific function (Exhibit 7, nº 14); ▪ Vents about family problems at Firmago; ▪ Lack of business knowhow; ▪ Constant and useless opinions related to the business ▪ Keeps the cleanliness of the facilities and its appearance; ▪ Fosters harmony and good disposition among workers (Exhibit 7, nº 26, 27); etc. ▪ “<i>She is a bit flashy</i>”
Why isn't she a candidate?	
<ul style="list-style-type: none"> ▪ Aging; ▪ No managerial expertise or effective role at Firmago (Exhibit 7, nº 19) ▪ No positive contribution to the business itself (interferes negatively on the company's daily work) ▪ No will to assume control at Firmago (Exhibit 7, nº 4, 12, 24); etc. 	
Why is she important in the process of choosing the next CEO?	
<ul style="list-style-type: none"> ▪ She is an owner and, because of that, she has a word to say about succession (Exhibit 7, nº 13, 16); ▪ She has an independent and long-term vision about the business (Exhibit 7, nº 28); ▪ She knows well the candidates, especially her children, since she relates to them on a daily basis. ▪ Contrarily to other family members, she knows how to distinguish the spheres family, management and ownership, which allows for analytical accuracy when discussing the candidates (Exhibit 7, nº 15, 23); ▪ This process creates an opportunity to build trust in the family-business system. Her strong impact in the family may help to mitigate some of the relationship problems in the family and to strength family unity; etc. 	

¹⁶ Refers to Exhibit 7 and to Teaching Notes Appendix 5 for results

Teaching Notes Appendices

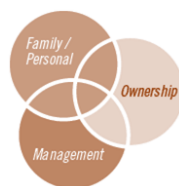
Appendix 1 – Results from the Questionnaire: The Family-Management-Ownership Relation

The instructor may ask students to use Exhibit 9 in order to identify which *Business Perspective* best characterizes Firmago. Applicability: the greater the number of CEO's "true" answers to the statements related to an option (e.g. family-first) the greater is the probability of that option to be valid. For example, there are seven statements related to the option *Family-First*. Pedro answered "true" to the statements nº 4, 10, 12 and 13, which means a probability of 75% of Firmago to be a *Family-First Business*.

Options	Nº of the Statements	False Answers	True Answers	% of the True Answers/ Total Statements
Family-First	2,4,5,10,12,13,17	2,5,17	4,10,12,13	57% (4/7)
Management-First	3,8,11,15,16	3,8,11,15,16	-	0% (0/5)
Ownership-First	1,6,7,10,14	7,6,10,14	1	20% (1/5)

Source: Poza, Ernesto J. 2010. "The Systems Theory Model of Family Business". In Family Business, 3rd ed., Mason, Page 7-14. OH: South-Western Cengage Learning.

Appendix 2 - The Systems Theory Model of Family Business



Source: Poza, Ernesto J. 2010. "The Systems Theory Model of Family Business". In Family Business, 3rd ed., Mason, Page 7-14. OH: South-Western Cengage Learning.

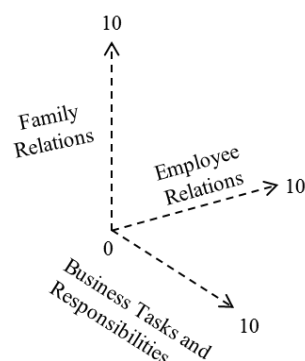
Appendix 3 - Results from the Questionnaire: The role of the President

The instructor may ask students to use Exhibit 6 in order to identify which *President Exit Style* best characterizes Alberto. For purposes of applicability, please note the reasoning applied in Appendix 1.

Options	Nº of the Statements	False Answers	True Answers	N.A.	% of the True Answers/ Total Statements
The Transition Czar	7,19	19	7	-	50% (1/2)
The Monarch	1,5,8,14,18,21	1,8,21	5,14,18	-	50% (3/6)
The Governor	2,6,12	2,12	-	6	0% (0/3)
The Ambassador	3,9,11,17,20	3,9,11,17,20	-	-	0% (0/5)
The General	4,13,16,22	16	4,13,22	-	75% (3/4)
The Inventor	10,15	10,15	-	-	0% (0/2)

Source: Poza, Ernesto J. 2010. "The Systems Theory Model of Family Business". In Family Business, 3rd ed., Mason, Page 7-14. OH: South-Western Cengage Learning.

Appendix 4 - Primary Business Concerns of the Nonfamily Manager



Source: Poza, Ernesto J. 2010. “*Primary Business Concerns of the Nonfamily Manager*”. In *Family Business*, 3rd ed., Mason, Page 233. OH: South-Western Cengage Learning.

Appendix 5 - Results from the Questionnaire: The Role of the Spouse of the President

The instructor may ask students to use Exhibit 7 in order to identify which *Role of the Spouse of the President* best characterizes Emília. For purposes of applicability, please note the reasoning applied in Appendix 1.

Options	Nº of the Statements	False Answers	True Answers	% of the True Answers / Total Statements
Business Partner	7,13,14,16	14	7,13,16	75% (3/4)
Chief Trust Officer	9,11,15,23,26,27,28,29	29	9,11,15,23,26,27,28	88% (7/8)
Senior Advisor / Keeper of Family Values	1,2,4,6,10,17,21	-	1,2,4,6,10,17,21	100% (7/7)
Free Agent	3,8,20,24	3,20,24	8	25% (1/4)
Jealous Spouse	18,22,25	18,22	25	33% (1/3)
Interim CEO Spouse	5,12,19	12,19	5	33% (1/3)

Source: Poza, Ernesto J. 2010. “*Role Types of the CEO Spouse and the Transfer of Power*”. In *Family Business*, 3rd ed., Mason, Page 119-128. OH: South-Western Cengage Learning.

Teaching Plan

The discussion of the case-study should be held in a 160 minutes class (or two sessions of 80 minutes each). On the previously class, groups of three to four students should have been formed in order to later read, discuss and elaborate a 14 minutes *PowerPoint* presentation to be held in the next class. They shall be given free will to explore the suggested questions, but must include the theory referenced beforehand by the Instructor. The *PowerPoint* presentation has to include answers to the suggested questions or to others that the Instructor considered relevant (e.g. regarding family governance). After all the presentations, the Instructor shall assign 60 minutes to discuss the suggested questions and further issues with the class. Consequently, they shall point altogether the outcome of the case-study and the Instructor reveals some of his complementary theoretical appointments.

Timing	Plan
10 minutes	Introduction of the case-study by the Instructor
70 minutes	The Instructor chooses five groups to present the <i>PowerPoint</i>
60 minutes	Discussion of the case-study with the class <ul style="list-style-type: none"> i. 10 minutes per suggested question (5) ii. 10 minutes to discuss further issues raised by the Instructor
20 minutes	Final outcome and Instructor's theoretical appointments

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